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Pragati

September 2010

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Review

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Advisory Panel

Mukul G Asher

Sameer Jain

Amey V Laud

V Anantha Nageswaran

Ram Narayanan

Sameer Wagle

Editors

Nitin Pai

Ravikiran Rao

Sushant K Singh

Editorial Support

Dibyoyoti Haldar

Priya Kadam

Aditya Dipankar

Aruna Urs

Smriti Aravind

Aditya Dipankar

Acknowledgements

The Jakarta Globe

Ajay Shah

10 Downing Street/HMG/

Aditya Dipankar (Cover Image)

Contact

pragati@nationalinterest.in

pragati.nationalinterest.in

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Of 'Azaadi', 'Kashmiri' and other false words

The real issue in Jammu & Kashmir

politics

ARNAB RAY

There has been a slew of pro-Azaadi, anti-India articles in the Indian mainstream press recently. One fine specimen of mediahood proudly recounted how he became a stone-thrower for a day, pointing out quite pointedly that the only thing that saved him was the *Hindustan Times* staff card, with the emphasis being on the sub-string Hindu. Of all these marvelous bits of journalism, with their objectivity and integrity misaals in their own right, my favorite piece is by one M F Husain, who tells us how he left India for its lack of freedom. Yes, and presumably found it in Qatar, an Islamic theocracy where freedom of all religions other than Islam is severely restricted and where apostasy (leaving Islam) is technically punishable by death.

To castigate India for being “not free” while being a voluntary citizen of Qatar is the height of hypocrisy.

Anyhow, this article is not about M F Husain. Nor is it about the way forward in Kashmir nor whether trying to bribe the local population with money will work. Nor about the draconian Armed Forces Special Powers Act (AFSPA) which I believe needs to be repealed, for the armed forces have to be made accountable in civilian contexts like everyone else. Nor indeed about the recent violence *per se*.

It is about the Kashmiri ‘fighting for independence against the wicked Indian state’ thing that we see repeated *ad nauseum* not just from Pakistan but also in the Indian mainstream media.

My first beef is with the word ‘independence’. Historically independence struggles have been fought against foreign powers, those who have taken control over a piece of territory for the purpose of economic exploitation. It

Arnab Ray is the author of *May I Hebb Your Attention Pliss* (HarperCollins) and blogs at greatbong.net

has also been fought between peoples of the same nation, like the Bangladesh independence struggle where a section of the population that has attained power (Punjabi Muslims) treats another ethnic or linguistic community (in this case Bangali Muslims) as second class citizens, systematically annihilating and depriving them of their most basic rights.

In the case of India's Jammu & Kashmir state, none of this is true. India does not economically exploit Kashmir. On the contrary it spends a massive amount on the state trying to buy the loyalty of the population. Even the *New York Times*, which last time I looked wasn't a right wing newspaper, says: "The dirty little secret of Srinagar, the heart of the movement to secede from India, is that many of its residents live quite well on the Indian government's money."

At the very least, no one can accuse the Indian government of taking anything out of the state. It is, of course, true that a lot of the development money lands up in wrong hands (that happens everywhere in India) but

They are fighting to establish a theocratic Islamic shariyat state.

there are far more deprived areas of India that have no 'freedom struggles'. As to the rights of Kashmiri people, they have privileges over property ownership that very few Indian citizens outside Kashmir have, making them super-citizens rather than inferior ones.

So none of the traditional characteristics of freedom struggles hold here. However, it is true that Kashmiris are fighting. But for independence. They are fighting to establish a theocratic Islamic shariyat state, aligned with or as an intrinsic part of Pakistan, where "independence" is defined somewhat as it is defined in Qatar, with subjugated status for minorities, and where the establishment of liberty, equality and fraternity—the ideals of any freedom struggle—is farthest from the minds of the stone-throwers and those that support them.

Sure, one can say "So what? If they want to establish an Islamic state, that's their decision. What right does the Indian government have to interfere?" This brings us to my second bone of contention—the word "Kashmiri". Like "independence" this too, in this context, is a

false word. A better more honest descriptor would be "Kashmiri Sunni Muslims". There was a time when Kashmiris meant both Hindus and Muslims, but then the Kashmiri Hindus were killed and driven out of the state by 'Kashmiris'. Since these Hindus (as well as people in Jammu and Ladakh) are not part of the 'freedom struggle' it is not fair to use the word Kashmiri to refer to the agitators, who, since they use Islam as their reason for wanting independence and identify themselves solely by their religious orientation, should also not object to being called what they actually are—Kashmiri Sunni Muslims.

The question should now be framed as: "So what is wrong in letting Kashmiri Sunni Muslims, after they have driven out the large section of the minorities, from establishing an "Islam is the answer", "independent", non-democratic state? Their free will—they shall do as they like."

If tomorrow the majority in Jat-land start an armed struggle to establish an autonomous Khap-istan where castist lynchings, dowry and child marriage are legal, and where inter-caste marriage implies death and retributive rape, would you call that an "independence" struggle and say that India should just let them have their way and not have the army fight them? If the day after tomorrow, if Gujarat decides that it wants to throw out its Muslim minorities and establish a Hindu theocratic Dhokla-land will the same Indians who post "Stop illegal military occupation of Kashmir by terrorist-state India" on Facebook also support the rights of Gujarati Hindus to choose how they wish to be governed because that's what the 'Gujarati' majority wants?

I think I know the answer.

So please sirs and madams, do protest against the Indian state and the Indian Army and sign petitions and protest outside the United Nations while drinking Starbucks and discussing EB2 Green Card priority dates. Do whatever you want to do but please, for the sake of truth of labelling, please drop the "independence struggle" from the description, and qualify the word "Kashmiri" with what should come after it.

Of course, if you do so, then the romance and the liberal "feel good" of standing shoulder-to-shoulder with an independence movement will be gone. Hurling stones at the Indian Army would be seen not as an act of supreme passion and justified frustration but as an act of war against the Indian state, something I believe which there are laws against.

Which is why you won't do it. ■

Eroding Indonesia's secular freedoms

Shariah in Aceh

foreign
affairs



Photo: Michael Renner

Agnes Monica, the famous Indonesian actress and singer, is a given to wearing sexy clothes, whether on stage, TV or advertising billboards. But not in Banda Aceh, in the provincial capital of Indonesia's Aceh province. Just across from the 19th-century Baiturrahman Grand Mosque is a large billboard that features Agnes wearing a headscarf—even though she's a Christian. Also absent is the tank-top exposing her bare arms and navel that Ms Monica wears in the advertisement for a cell-phone service running in the rest of the country.

Although the headscarf, or *jilbab*, is familiar attire in Indonesia, the world's largest Muslim-majority nation, only in Aceh is it required for Muslim women.

Failure to wear "Islamic dress" is a violation of one of Aceh's Islamic bylaws, and violators can either be reprimanded or hauled into court by the Shariah Police.

DEWI KURNIAWATI

This report first appeared in the Jakarta Globe, Indonesia's most-read English-language newspaper. Copyright ©2010 Jakarta Globe. Reprinted with permission.

Despite Indonesia having a secular Constitution, devoutly Muslim Aceh was allowed to adopt parts of Shariah law, presumably to prevent the Acehnese from joining the rebellious Free Aceh Movement (GAM).

In 1999, President B J Habibie signed a special law on Aceh that, among other things, granted the province a special status and the right to partially implement Shariah.

However, the law did not stipulate how Islamic law would be implemented.

Two years later, President Megawati Sukarnoputri signed into law an autonomy package that included comprehensive regulations on establishing Shariah courts and Shariah bylaws.

Based on these two pieces of legislation—that were drafted, discussed, and approved in Jakarta, Aceh

Allowing Aceh to implement Islamic bylaws was seen as a political solution to stave off more rebellion.

established its first Shariah court in 2003, and publicly caned its first violator in 2005.

Five years later, the obvious question has yet to be asked: why was Shariah rammed through the national legislative system and “given” to Aceh when neither the populace nor the GAM guerrillas ever asked for it and perhaps few people, with the exception of the provincial *ulema* council, actually want it?

The answer has become increasingly crucial given that scholars, activists and politicians believe Shariah goes against the basic principles of Indonesia’s Pancasila state ideology, which asserts that the country is multi-religious but secularly governed.

Worse, it has allowed a creeping Islamic fundamentalism to gain a foothold, with other provinces and districts steadily applying Shariah-inspired bylaws since 2003 under pressure from hardline groups.

“Just like the majority of Acehnese, I was born a Muslim, but we don’t need Shariah,” said Muhammad Chaidir, a rental car driver in Banda Aceh. “Shariah doesn’t bring us prosperity.”

Indeed, the Islamic bylaws seems to have brought

the strife-torn province trouble, as well as negative publicity.

Mr Chaider’s comments are typical of many Acehnese who long for security, prosperity and a sense of belonging after the protracted 29-year civil war between GAM and the Indonesian military killed at least 20,000 Acehnese and the 2004 Asian tsunami, which killed an additional 177,000 people in the province.

Today, the Acehnese are governed by both national criminal law and local Islamic bylaws.

And as if that weren’t enough, the chief of the West Aceh district began enforcing a new regulation in May that bans Muslims there from wearing tight clothing. This bylaw—clearly aimed at women—as well as other controversial events including religious police breaking into a United Nations compound looking for Westerners drinking alcohol, and numerous instances of public caning, have put Aceh in a negative international spotlight.

“After being wracked by conflicts, the central and local governments should focus on a truth and reconciliation program, not Shariah,” said Evi Narti Zain, executive director of the Aceh Human Rights NGO Coalition. “If we raise objections to Shariah, then we will be labeled as infidels and accused of disturbing the peace in Aceh.”

Independent reports on the implementation of Shariah in Aceh have concluded that it discriminates against the poor, in particular women, who are at the mercy of the Shariah Police. Middle and upper-class Acehnese, meanwhile, have ways to skirt around Shariah stipulations so they can enjoy their share of romance and alcohol.

“They go to fancy hotels, or spend the weekend in Medan,” in nearby North Sumatra Province, Ms Zain said laughing. But some of the side affects of Shariah are no laughing matter, including abuse of power by those sworn to uphold it.

On July 15, the Langsa District Court in East Aceh district sentenced two members of the Shariah Police to eight years in prison each for the rape and torture of a 20-year-old female student they had in custody.

What happened?

So where did it all start and why? Experts have a number of theories.

Some believe that implementing Shariah in Aceh was a scheme hatched by conservative Islamic clerics who saw an opportunity to expand their own political power and so they heavily lobbied Jakarta politicians.

Others said they assumed the military was behind adding Shariah to the 1999 autonomy law so it would have a tool to divide the independence-minded province and further isolate the GAM fighters.

And still others said that Shariah was a consolation prize for the province after the military and the nation's political elite rejected a proposal by the president at the time, the late Abdurrahman Wahid, to allow Aceh to hold a referendum on independence, just like East Timor did in 1999.

It was indeed under the Wahid administration that Jakarta first attempted to go down the road to peace after years of applying brutal military force during the Suharto regime.

According to Ahmad Suaedy, an expert on Aceh from The Wahid Institute in Jakarta, Wahid had even enlisted members of the Moro Islamic Liberation Front (MILF) in the southern Philippines to lobby self-exiled civilian leaders of GAM residing in Sweden to start communicating with Jakarta.

"I believe Gus Dur would never allow them to implement Shariah because he was very committed to the unitary state of Indonesia," Ahmad Suaedy said, referring to Wahid by his popular nickname.

Hoping to initiate ceasefire talks and hold off pessimistic Army generals in Jakarta, Wahid sent acting State Secretary Bondan Gunawan to meet the rebel group's field commander, Abdullah Syafi'i, in a secret jungle location in Aceh in March 2000.

Syafi'i was later killed in a special military operation in January 2002, further straining tensions between GAM and the military.

"When I met Syafi'i in the jungle, he never requested that Shariah be implemented," Mr Gunawan told the *Jakarta Globe*. "That never crossed their minds."

Researchers on Aceh have pointed out that GAM separatists were driven by a nationalist ideology aimed at gaining independence from Javanese-dominated Indonesia, not by religion, and never wanted Shariah to be pushed down their throats by the government in Jakarta.

Dharmawan Ronodipuro, a former spokesman for Wahid, recalled that there had once been a discussion about actually implementing Shariah in Aceh during a cabinet meeting.

"The original idea was to separate GAM members from civilians," he said.

However, some scholars and political observers said that implementing Shariah in Aceh was "historical

sabotage" carried out by various factions including hard-line Islamic groups, right-wing political parties and elements within the military.

"If we look clearly at the history of Aceh, I believe what the Acehnese desired was not Shariah, but political and economic justice," said Bachtiar Effendy, a political expert from Syarif Hidayatullah Islamic State University in Jakarta.

"They had given everything they had for the establishment of this country, including their trust and natural resources, but they have been repeatedly betrayed.

"GAM obviously did not want anything to do with Islam, because they wanted support from Western countries for their [independence] struggle. It is so strange that suddenly Shariah was inserted into the autonomy law. We should all question that," he said, noting that the Aceh conflict dragged on even after Islam became part of the laws of the land.

"Peace was only established after the Helsinki Agreement of 2005."

A former minister said that the decision to grant Aceh implementation of Shariah was taken while three key government positions were in the hands of retired military officers—the Minister of Home Affairs, the Coordinating Minister for Politics, Security and Law and the Cabinet Secretary.

The Minister of Religious Affairs was a Shariah expert.

The International Crisis Group's Sidney Jones said that allowing Aceh to implement Islamic bylaws, "even though in very vague terms," was seen by Jakarta and members of the Acehnese elite as a political solution to stave off more rebellion.

"It was partly the result of concern about the reaction in Aceh to the granting of a referendum to East Timor," Ms Jones said, noting that the Acehnese people "overwhelmingly" wanted a referendum of their own.

Enter the Shariah Police

In Aceh today, Shariah Police officers patrol the streets looking for violations.

Their main targets are women not wearing headscarves, people gambling or drinking alcohol, and couples having sex out of wedlock.

Far from being supported for upholding morals, the Shariah Police are largely hated for heavy-handed tactics that have on more than one occasion turned mobs of angry residents against them.

“They act like a military force. It shows that at the subconscious level, militaristic hegemony is successful after decades of conflicts in Aceh,” Ms Zain from the NGO coalition said.

But some groups in Aceh have attempted to go even further.

In September 2009, the outgoing Acehese provincial legislature passed a *Qanun Jinayat*, a bylaw with a revised and more comprehensive version of Shariah, which included a section stipulating that convicted adulterers be stoned to death.

Governor Irwandi Yusuf, who is a former member of GAM’s civilian leadership, refused to sign the bylaw, effectively quashing it.

Following embarrassing international news stories, officials in Jakarta asked for the controversial bylaw to be withdrawn.

“Conservative [clerics] backed by organizations such as Hizbut Tahrir and conservative Islamic parties like the United Development Party (PPP) and the Prosperous Justice Party (PKS) badly wanted to implement the *Qanun Jinayat* in Aceh,” Ms Zain said.

The overall implementation of Islamic bylaws has thus far been far from flawless.

“We have seen many violations with the implementation of Shariah. Basically, it’s women who suffer the most,” Zain said.

“There are no guarantees that even when women cover themselves, they will not be raped or molested,” she said, highlighting the gang rape last January in East Aceh’s Langsa district that involved Shariah Police officers.

“Many see the implementation of the *Qanun* in Aceh as a successful pilot project, and it is prompting [leaders in] other areas in Indonesia to also promote Shariah. They copy-paste Aceh’s *Qanun* for their areas,” she said.

Playing follow the Leader

Mr Bachtiar, the political analyst, said Aceh has become something of a Pandora’s box for the central government because other regions can now claim they are being discriminated against if they cannot implement Shariah-inspired bylaws.

“If it’s not wrong for Aceh, then you can’t criticize the emergence of Shariah bylaws elsewhere,” he said, adding that “those who criticize local Shariah bylaws

don’t have the guts to criticize Aceh.”

Eva Kusuma Sundari, an Indonesian Democratic Party of Struggle (PDI-P) lawmaker, questions the central government’s commitment to upholding Pancasila.

She said that since Aceh began to partially implement Islamic law, hundreds of Shariah-inspired bylaws have been passed nationwide.

“By accommodating too many Shariah bylaws, the government is betraying the national Constitution,” she said. “In the unitary state of Indonesia we have agreed to use a national criminal law, and condoning Shariah bylaws is an act of subversion.”

Sundari claimed that an “elite group with a certain political agenda is playing a big role in the Shariah-based bylaws.”

The Ministry of Home Affairs reviews regional bylaws and should quash them if they contradict national law. Suhartmansyah, head of the ministry’s social and political desk, said “the state can’t do much about Aceh because the people asked for Shariah.”

But activists and scholars differ. The only people in Aceh who back Shariah are local Islamic clerics and politicians from Islamic parties, they said.

One such cleric is Muslim Ibrahim, chairman of the Aceh Ulema Assembly and a prominent lobbyist for Shariah in Aceh. Ibrahim told the *Globe* he rejected claims that Aceh was given Shariah as a means to isolate the GAM separatists. “That is nonsense. GAM didn’t want Shariah to be implemented,” he said. “This is the fruit of a long struggle by us clerics.”

According to Mr Ibrahim, Shariah had been enforced in Aceh centuries ago before being halted by the Dutch colonial administration as it was considered cruel. But Mr Ibrahim says Shariah “is the best law for the Acehese.” He claimed gambling had decreased by 40 percent within six months after the first public caning, adding that Shariah punishment serves as shock therapy because it is purposely humiliating.

However, Ms Zain from the NGO coalition said public punishments discriminate against women because afterwards, unlike men, they are shunned by society. “Instead of creating justice, Shariah creates injustice among the Acehese because we see how powerful people who violate Shariah are free and never punished. So the poor are punished twice: by national criminal law and now by Shariah,” she said. ■

The Cameron Opening

How to really transform India-UK relations

foreign policy

When David Cameron and the Conservative-Liberal Democrat coalition took over the reins of government in London in May 2010, Britain was going through a period of great uncertainty and change. Involvement in two wars had cost the country over \$30 billion and 500 lives, while the impact of the global economic slump on Britain challenged the notion that it could continue to “punch above its weight” in world affairs, even as an ally of the United States. The centre of power was gradually, but conspicuously, shifting eastward. Recognising these realities, Mr Cameron’s government set about crafting “a distinctive British foreign policy” for his coalition government: a policy best articulated by William Hague, the British foreign secretary, as one that recognised as this shift in power from the West to the East and the emergence of other players through the G20.

It is a theme that Mr Cameron has taken to heart. Barely eight weeks after taking office, he embarked on a tour of Asia. His first stop was in Turkey, a country in the midst of a strategic reorientation (not perhaps, unlike his own), where he pledged to support Ankara’s quest for EU membership. His next stop was India. Arriving in Bangalore—not New Delhi—Mr Cameron brought an entourage of ministers, businessmen and academics. Speaking at the headquarters of Infosys Technologies, the British prime minister demanded Pakistan abjure terrorism against India and not “look both ways” on the issue. It was a departure from a narrative long favoured by Western leaders, and one that might pay dividends for Britain as it seeks a stronger partnership with India. That Mr Cameron appeared unapologetic about his comments even when he welcomed the Pakistani president to 10 Downing Street indicated that he wasn’t hedging, as so many Western leaders are given to, on the issue of terrorism

ROHAN JOSHI

Rohan Joshi is a Fellow for Cyber Security at the Takshashila Institution and blogs at *Filter Coffee* (filtercoffee.nationalinterest.in)

in India. Indeed, Mr Cameron's unambiguous stance on the issue may help in easing the coolness in bilateral ties, not least after the damage caused by David Miliband's gratuitousness and sanctimony in January 2009.

Faced with government debt and high unemployment rates at home, Mr Cameron will do what he must to revive his country from economic slump. In this regard, it is easy to dismiss his overtures to India as being opportunistic, self-serving or myopic. And notwithstanding the trade delegation that he brought to India, bilateral trade between the two countries has levelled off, in absolute terms at about \$11 billion (2008-2009). In terms of the overall contribution to India's economy, Britain has lost ground to other countries, including the UAE, Saudi Arabia and Singapore. There is no doubt that bilateral trade between the two countries will continue to amble

Mr Cameron's austerity measures may provide a mutually beneficial opportunity to both countries.

along. But if Mr Cameron wishes to truly forge the bonds of an "enhanced relationship" with India, both countries will need to engage on issues of strategic importance to the world and to each other. Three issues stand out: security, energy and climate change.

The first pertains to what C Raja Mohan calls "keeping the global commons open and secure for all." The security and safety of vital commodities in transit is critical to any economy; more so to one growing at such a rapid pace as India's. The growth of India and China, and the Southeast Asian economies will increase competition for resources and further underscore the vitality of Indian Ocean trade routes to their economic growth. Today, India is already engaged with like-minded countries such as the United States in securing these high traffic energy and trade routes, from the Horn of Africa to the Straits of Malacca. An India-UK collaboration on maritime security in the Indian Ocean and beyond can significantly transform the nature of this bilateral relationship.

A related aspect involves opportunities for qualitative defence transactions between the two countries. During Mr Cameron's visit to Bangalore, the much awaited \$800 million contract for 57 advanced jet trainers was signed

between BAE Systems and Hindustan Aeronautics Ltd. While the deal itself is important, defence ties have operated far below their potential. Mr Cameron's austerity measures, proposing to shrink the size of the armed forces may provide a mutually beneficial opportunity to both countries. Britain plans to downsize the Royal Navy's fleet of V-class nuclear-powered submarines. India for its part, is seeking to diversify its nuclear delivery systems, which are essential for maintaining a credible secondary-strike capability. Its sea-based deterrence system, however, is still nascent, with a small fleet of aging diesel-powered submarines. The induction of the indigenous Arihant-class nuclear submarines is still many years away. A British offer to lease some of its V-class submarines to India on a short-term basis will be well received in New Delhi. It can also help alleviate some of the cost pressures that Britain is currently facing without permanent reduction in defence capacity.

No doubt, with the sensitivity of the technology involved, India and Britain will need to conclude a more overarching dual-use agreement before transfers take place. This could in turn, pave the way for increased high-technology and dual-use trade between the two countries. In this regard, the two countries must also move forward in operationalising the civilian nuclear agreement, signed during Mr Cameron's visit, which would allow the export of civilian nuclear expertise and technology to India. India's \$150 billion nuclear energy market provides export opportunities to British companies, even as Britain modernises its own nuclear power stations over the next 15 years.

Despite the rift created between developing and developed countries at the Copenhagen Summit, India and Britain can cooperate on climate change and renewable energy research. While India has made progress in developing more energy-efficient factories, its non-legally binding goal of reducing emissions intensity on its economy from 20-25 per cent by 2020 can be attained with British technical assistance in cutting emissions and growing in a more energy-efficient way.

For the India-UK equation to transform into an "enhanced relationship" that Mr Cameron envisions, both countries must revisit mechanisms that will allow for such collaboration to take place. While Mr Cameron's bold position on terrorism emanating from Pakistan will no doubt be appreciated and taken note of in the corridors of power, it will perhaps go down as an opportunity squandered if the momentum is not used to craft an alliance that can address mutual medium- and long-term interests and aspirations. ■

Beyond Pakistan and Cyprus

Turkey's reorientation offers opportunities for better ties with India

foreign affairs

Turkey's foreign policy since the end of the Cold War has been marked by a significant reorientation from a long entrenched passive and isolationist stance to one of active engagement particularly in the affairs of the Middle East. This dramatic change in foreign policy outlook has become more pronounced since Recep Tayyip Erdogan's Justice and Development Party (AKP) came to power in 2002.

The AKP foreign policy-makers have envisioned Turkey as holding multiple roles in world politics, though these were previously thought of as incompatible. Turkey's continuing commitments to involvement with the West, while deepening connections with the Middle East, Latin America, Asia and Africa constitute the hallmarks of the new foreign policy vision.

Students of Turkish foreign policy since 2002 point out one person as the brain behind the foreign policy of the AKP governments: Ahmet Davutoglu. He was the chief foreign policy advisor (2003-2009) to Prime Minister Recep Tayyip Erdogan before his appointment as foreign minister in May 2009. It is imperative to understand Mr Davutoglu's concept of strategic depth, expounded in his 2001 book (reviewed in the July 2010 issue of *Pragati*) as it has come to guide Turkish foreign policy.

According to Mr Davutoglu, Turkish foreign policy now has a visionary approach, not a crisis-oriented approach with a consistent, systematic framework. This means Turkey's involvement or relations in one area should not be seen as a contrast to others. Therefore, Turkey's endeavour to develop political and economic relations with the Middle East, Asia and Africa is not an alternative to its European vocation and its strong intention to join the European Union. Turkey also has a new style, in the sense of political rhetoric, tools and instruments in foreign relations, which is essentially about soft power.

'The balance between security and freedom' and 'zero problems with neighbours' are frequently cited as the operational principles of the new foreign policy. As part of this, Turkey has developed economic and political relations with all neighbouring countries. In regional affairs, Turkey has usually employed proactive peace diplomacy. Turkish efforts for Sunni-Shiite reconciliation in

MEHMET OZKAN

Mehmet Ozkan is a doctoral student at Sevilla University, Spain and a visiting fellow at the Institute for Defence Studies & Analyses, New Delhi.

Iraq since 2005, domestic reconciliation in Lebanon in 2008 and reconciliation negotiations between Serbia and Bosnia since 2009 can be seen as examples of pragmatic soft power policy in Turkey's immediate neighbourhood. Recent formal requests for mediation from different parts of the world like Somalia and Philippines indicate the possible future involvement of Turkey in other regions too. Turkey's efforts to find a diplomatic solution to the Iranian nuclear issue resulted in a joint declaration in May.

Turkey sees relations with India, China and other rising powers as a part of its own re-orientation in changing global political economy. With increasing democratisation, prosperity and decreasing role of military in politics, Turks are becoming more self-confident in regional and global politics. That is the biggest change which helps to understand Turkey's new-found international and regional activism in solving problems and bringing a new order.

Turkey no longer appears to be interested in formulating its Asian policy based on Pakistan, as was the case a decade ago.

Turkey and India: Beyond Cyprus and Pakistan?

History is the mirror of future. A strong historical connection between Indians and Turks exists dating back to the medieval era. India's help in the Turkey's War for Independence in the 1920s is alive in Turkish memory. The original financing of Is Bankasi, the country's biggest bank, came from India. However, Turkey and India had different preferences during the Cold War; one sided with the West while the other led the non-alignment movement. In the post-Cold War era, a new definition of bilateral and global political cooperation is needed both at regional and international level.

A general picture indicates that Turkey has looked at India through the prism of Pakistan, and India has similarly done so through the prism of Cyprus and strong Turkey-Pakistan relations. At a minimum, these conceptions are outdated and no longer help understand the new existing developments between the two countries. For example, since early 2000s Turkey-India trade relations have increased significantly, although they are still far from reaching their full potential. From \$429 million in 2001, bilateral trade between both the countries grew to \$3 billion in 2008.

Though global economic crisis affected this increasing trend, decreasing bilateral trade to \$ 2.3 billion in 2009, both countries are showing signs of resuming stronger economic ties and a possible free trade agreement in the near future. Meanwhile, political and societal relations between the two have also undergone a transformation.

Turkey's interest has been emphasised by the president's visit to India in February 2010 at the head of a large delegation. India's response has been mild so far, largely due to Turkey's relations with Pakistan. However, the new Turkey no longer appears to be interested in formulating its Asian policy based on Pakistan, as was the case a decade ago. Turkish officials are worried about the future of Pakistan as a possible failed state. Ankara has softened its pro-Pakistani approach to the Kashmir issue. On terrorism, Turkey seems to get closer to the Indian approach in opposing all kind of terrorism without any reference to 'root cause'.

On societal level, Turkey is becoming an important tourist destination for Indians. In 2009, 50,000 Indians visited Turkey and since July 2010 a new visa policy towards Indian citizens aims to achieve 1 million tourist arrivals from India. Those who have valid US or Schengen visa can get a Turkish visa at the port of entry.

There are two major obstacles to improving Turkish-Indian relations. The most persistent issue is the lack of information, both at the popular and the elite levels. The problem is deep-seated and requires time for an efficacious resolution. However, three strategies could be implemented: a student exchange programme; more frequent exchange of academics and researchers between universities; and co-operation between Indian and Turkish think-thanks in organising joint conferences and publications on Turkish and Indian socio-political issues.

Second is the lack of a international dynamic in Turkey-India relations. Both Turkey and India are rising powers but they co-operate at the global level—such as in the G-20—in a limited way. Turkey could develop close relations with, and perhaps participate in inter-continental groupings like the India- Brazil-South Africa Dialogue Forum. This is the best way to attach a larger international dimension to Turkey-India relations. Considering the Turkey-Brazil co-operation over Iran's nuclear programme, similar co-operation between Turkey and India should not be seen outside of reach.

In short, what will define the future of Turkey-India relations is not Cyprus or Pakistan, but an emphasis on mutual strengthening of economy and providing an environment for mutual understanding. Creating a stable bilateral political interaction and recognising mutual threats and opportunities will also accelerate this process. ■

Supering the Superbug

An opportunity for implementing
sound health policies

public health

A research paper published recently in *Lancet Infectious Diseases* has led to an unfortunate storm of protest in India. Unfortunate because in the face of much reasonable concerns highlighted by the paper, the Indian government, medical community and sections of the media's has reacted with outrage, denial and nebulous allegations of 'Western conspiracy', rather than thoughtful discourse.

The paper in question investigates a novel antibiotic-resistance conferring gene, first identified two years ago in a Swedish patient who had undergone surgical procedures in India. The gene—named New Delhi metallo-beta-lactamase-1 (NDM-1) as per its place of suspected origin—makes the bacteria resistant to a wide spectrum of antibiotics, including carbapenems, one of the strongest in use. The investigators found this deadly resistance-conferring gene to be widespread in bacteria isolated from patients across several hospitals in India, Pakistan and Bangladesh, as well as increased occurrences over two years in patients at British hospitals. A subset of these British patients had visited India and Pakistan for various surgical procedures. Given the strict monitoring of microbial infections in Britain, it is reasonable to suspect that cases in that country came from the subcontinent.

Independent of this, studies by Indian investigators have found the same antibiotic resistant forms in isolates from patients at the Hinduja Hospital in Mumbai. Also, the Center for Disease Control (CDC) in the United States have isolated these resistant forms in two patients who had received medical care in India, apart from cases being detected in Australia, Canada and the Netherlands.

Resistant bacteria, dubbed superbugs, emerge through rampant overuse and misuse of antibiotics, as is common in countries like China and India. In fact, alarms have been raised recently by a number of Indian doctors in

PRITHWISH PAL

Prithwish Pal is a scientist working in the biotechnology sector and blogs at *Omically Speaking* (www.omespeak.com/blog/). He wishes to acknowledge the inputs of Rohit Pradhan and Satakshi Pandit to this article.

various medical journals, warning about the overuse and improper prescribing of drugs in Indian hospitals. The existence of superbugs as such is a global health problem, especially due to widespread travel and relative lack of drugs in the pharmaceutical pipeline to combat them.

From the Indian standpoint, there are two real issues related to superbugs that need to be addressed. First, there are concerns about economic repercussions for the medical tourism industry—which generated revenues of around Rs 15 billion last year—particularly in light of a recommendation in the *Lancet* article against obtaining medical surgeries in India. While the recommendation was made within the specific framework rebutting a proposed money-saving policy for Britain's National Health Service (NHS) through outsourcing surgeries to

of existing laws to prevent indiscriminate dispensation of antibiotics. Regular auditing and strict penalties for pharmacies found to distribute antibiotics without prescription will help. It is important to educate the public and pharmacists about the inherent dangers of the antibiotic overuse, as well as that of not completing antibiotic courses.

- Improving the training of doctors and healthcare professionals in the currently available spectrum of antibiotic drugs and their judicious use. A clear, national guideline on the usage of high-end antibiotics can prevent the over-prescription of such drugs. The guideline could also include fair practices for the pharmaceutical industry such that physicians are not 'coerced' into prescribing certain drugs.

- Most urgently, India must set-up a centralised body that can monitor bacterial infections and their antibiotic susceptibility. Given the large breath of country and the wide variety of health care services, surveillance could be somewhat difficult in practical terms. However, monitoring does not necessarily mean additional manpower on the field or setting up laboratories at every hospital—medical professionals can be trained to be on the lookout for bacterial infections and send isolates on a regular basis to regional laboratories for testing (the WHO has guidelines and offers assistance to countries in setting these). A database accessible to the centralised agency can track results from the infections. Above all, there needs to be absolutely transparency if or when new drug-resistant pathogens are detected, along with rapid response for containment.

In terms of preventing the spread of superbugs already in existence, the usual protocols of proper disinfection measures (for instance, hand washing, personal protection equipment worn by healthcare workers) and isolation of patients harbouring resistant microbes need to be implemented. While such policies are already in place, and even implemented in the higher-end private facilities, public hospitals suffer from neglect. Improving conditions there will require change of attitudes and large scale reforms.

Some of the latest media reports and statements from the CDC have suggested that NDM-1 may not turn into a large global health crisis as expected earlier. Early reports also indicate that the *Lancet* article has not deterred medical tourists yet. However, centralised policies as outlined above, along with composed, evidence-based responses to any future crisis will do much to alleviate fears of potential medical tourists and reduce public health burdens. ■

India must set-up a centralised body that can monitor bacterial infections and their antibiotic susceptibility.

India, some Western media outlets have been guilty of broadly tarnishing the Indian healthcare industry.

Secondly, and of far greater concern, is the implication of these resistant pathogens for public health in India. The rise of the antibiotic resistance driven by overuse does not bode well for the economically weaker sections of the country that are most susceptible to infectious diseases. Bacterial resistance also adds to the overall economic burden for having to use newer, expensive, or worse, otherwise dangerous (in terms of side-effects) new antibiotics for treating infections.

So what should be India's response to these two issues?

The solution to both the impact on medical tourism and the broader public health concerns lies in the country taking a firm stance on monitoring, control and ideally, prevention of future emergence of resistant pathogens. With this in mind, India will do well to implement without delay, policies modelled on recommendations by World Health Organisation's Global Strategy for Containment of Antimicrobial Resistance, some of which include:

- Curbing antibiotic overuse through enforcement

Pushback in the South China Sea

YURIKO KOIKE, the former national security advisor of Japan speculates that Hillary Clinton's recent trip to Asia had the potential of triggering a diplomatic revolution similar to the 1971 Kissinger visit to Mao's China. In an opinion piece in the *Taipei Times*, "US takes a stand against a shifting geopolitical landscape", she states that the United States not only reaffirmed its commitment to security in Asia and the eastern Pacific but also exposed the dichotomy in China's policies of hegemonic behavior versus its mantra of 'peaceful rise.' Washington is unwilling to accept China's push for regional hegemony in the hydrocarbon-rich waters of the South China Sea. It has given pause to Chinese leadership that their country's overall international role was being tested primarily in Asia.

US in southern Asia

MICHAEL O' HANLON of Brookings Organization proposes a policy of complementing the hard power aspects of US policy in South Asia with a big push in soft power, particularly within the arena of economics. In an opinion piece for *Politico*, "Economics of Security in South Asia", he outlines a four-point economics and security initiative plan with tripling of annual economic aid to Pakistan, free-trade for Pakistan's tribal areas, encouragement of India-Pakistan trade and fuel pipelines from Central to South Asia through Afghanistan as the four key components.

The land-inflation linkage

ARVIND SUBRAMANIAN, fellow at the Peterson Institute for International Economics reviews the high inflation figures for India and suggests that the combination of serious micro-economic distortions afflicting the land market coupled with macroeconomic factors such as surging

capital inflows into real estate could be raising cost of production in the Indian economy as a whole. It is causing cost-push inflation and making the goal of double-digit growth elusive.

In an op-ed in the *Business Standard*, "India's Inflation Puzzle", he states that inflation in India could be far more dependent on services and land as an input and India would need to address micro-economic distortions through structural reforms of the land market and address macroeconomic drivers of inflation through dampening of foreign capital flows into real estate and housing and higher provisioning for real-estate lending.

Nation States – RIP

PARAG KHANNA, of the New America Foundation heralds the beginning of the urban age predicting that globalisation would result in the emergence of global hub cities attracting talent and capital, and Third World world megacities that would together drive governance, economics, innovation and diplomacy, pulling away from their home states while simultaneously competing for global influence among themselves and alongside states.

In a commentary for *Foreign Policy*, "Beyond City Limits", he states that cities and the urban economies, like the Hanseatic league of yore, would serve as the centers of gravity for nations, being at the core of issues such as security, governance, climate change, inequality and poverty while making national borders and international organisations irrelevant.

Sino-Pak nuclear collaboration

ASHLEYTELLIS of the Carnegie Endowment for International Peace recommends that Washington should lead forcefully in urging China to rethink its plans to sell civilian nuclear reactors to Pakistan. He points out that Beijing had a lot at stake if it chose to renege on its NSG obligations. In an opinion piece for the *Wall Street Journal*, "Stop the Sino-Pak Nuclear Pact", he states that China's plans had raised alarms in foreign

capitals given Pakistan's fragile leadership, and an implicit threat to withhold the forms of co-operation that China desire would convince Beijing to reconsider its decision.

Indian Philanthropy

ARPAN SHETH of Bain & Company analyses the state of Indian philanthropy in comparison with other countries arguing that there existed potential for greater philanthropy among wealthier Indians whose relatively recent wealth accumulation, blurring between personal and corporate donations and underdeveloped donation support networks led to lower individual philanthropy. In a lecture "An Overview of Philanthropy in India", at the Indian Philanthropy Forum, he recommends modifications to the legal and taxation framework that hindered growth and operation of non-profits in India and calls upon non-profits to increase transparency, professionalism and effectiveness.

Scenarios for The Seven Sisters

NAMRATA GOSWAMI of the Institute for Defence Studies and Analyses, examines the key factors determining the future of India's insurgency-ridden North East and identifies four possible future scenarios: a tourism-anchored "Destination Northeast"; an insular "Island Northeast" based on xenophobia and violence; a democratic "Multi-cultural Northeast"; and "Global Northeast" on the back of a successful Look East policy. In an *IDS Occasional Paper*, "India's NorthEast 2020: Four Alternative Futures", she recommends a policy focus based on developing human capital, fostering inter-state competition and rewarding progress to ensure the development of an open, multi-cultural, globalised and democratic North East.

Ravi Gopalan is a research associate with *Pragati*.

ROHAN JOSHI

As usual, “the Americans did it”

Reporting about an air crash near Islamabad involving a private airline, Pakistan’s *Nawa-i-Waqt* said that the flight crashed because it had been hijacked by two Blackwater commandos, who intended to ram it into Pakistan’s Kahuta nuclear plant.

The newspaper cites an anonymous Pakistani civil aviation official, who said that these circumstances were well known to Pakistan’s leaders, who have chosen to hide the truth from the citizens. The article indicates that the pilot of the ill-fated airline, Pervez Iqbal Chaudhry was a devout Muslim who resisted the Blackwater commandos’ orders to fly into the Kahuta nuclear plant, and instead chose to crash his plane into Margalla Hills. Kahuta is only a few minutes away by air from Islamabad and that Margalla Hills are a no-fly zone.

The article suggests that the truth behind the plane’s crash will be revealed once the last 30 minutes of conversations in the plane’s cockpit from the plane’s recorder are analysed.

Cordoba House

Weighing in on the controversial Islamic centre project in New York city, Manar al-Shorbaji criticises US politician Newt Gingrich for attacking not just radical Islam but also Islamic Sharia. In Egypt’s *al-Misr al-Youm*, she says that it would be a mistake to dismiss Mr Gingrich’s comments as having no weight in the United States, warning that he might choose to announce his candidacy to run against Mr. Obama in 2012.

Ms al-Shorbaji says that US neocons have waged a perpetual war against those they consider their enemies—in the beginning, this was against communism, and with the fall of the USSR, the target is Islam. She states that Mr Gingrich’s arguments are fallacious and dangerous, and that he is now using the Cordoba House (which seeks to build a mosque, two blocks from where the World Trade Center stood in New York

City) to fuel hatred of American Muslims. She argues that while she supports religious freedom, she never quite understood the demands of some American Muslims to build a mosque in that area of the city. She believes that this will further marginalise the American Muslim community and allow right-wing politicians such as Mr. Gingrich to gain popularity in the country. The writer says that communal disharmony will only grow further were Mr Gingrich to ever assume the office of president.

Criticising Cameron

Commenting on David Cameron’s comments in Bangalore, Pakistan’s *Daily Express* says that American and British leaders have a tendency of going to India and speaking India’s “language,” but when they come to Pakistan, they say something else. Its editorial reminds its readers that Pakistan has played a pivotal role in confronting terrorism in the region, for which it has played a heavy price. However, it says, the West continues to demand that Pakistan fight terrorism, without confronting the root cause of the problem, which is Jammu and Kashmir. The editorial blames Britain as being the reason why the Kashmir problem exists today, and feels that if London so chooses, it could resolve the issue between India and Pakistan.

The editorial is in agreement with the foreign ministry’s statements indicating that Pakistan has confronted terrorists and condemned terrorism in all its forms, and that Mr Cameron’s comments were unacceptable. It suggests that both the United States and Britain show the same enthusiasm for resolving regional issues such as Kashmir as they do for blaming Pakistan for not doing enough to confront terrorism.

Squeezing Lebanon

The UAE’s *al-Bayan* has criticised the United States’ decision to deny weapons earlier promised to Lebanon, because of the latter’s

recent border conflict with Israel. The paper argues that Israel’s decision to not respect Lebanese sovereignty resulted in a brief exchange of fire between the two nations. However, only Lebanon’s funds were frozen until the United States determined to what extent Hizbollah was involved in the incident. It argues that Washington’s position could have been acceptable, had the party involved in the conflict with Israel been the Hizbollah. This, the editorial says, was never the case, and it is clear that only the Lebanese army was involved in the conflict. It says this is confirmed by the presence in that region of international forces supervising the implementation of UN resolutions.

Washington’s hasty decision to cut off aid to Lebanon without ascertaining the facts has added to tensions. The editorial comments that Saad Hariri, Lebanon’s prime minister, had in fact always insisted that the United States be involved in resolving its issues, despite resistance to this idea from some countries in the region. The decision, therefore, to freeze military aid will promote anger and set those individuals trying to bring peace to the region up to fail, the editorial concludes.

Rohan Joshi is a Fellow for Cyber Security at the Takshashila Institution and blogs at *Filter Coffee* (filtercoffee.nationalinterest.in)

Post–deluge Pakistan

An assessment of the political implications
of the flood disaster

foreign affairs



Photo: Salman Taseer

1. Fears of Pakistan ending up as a “failed state with nuclear weapons” are overblown. The disaster is unprecedented and the response understandably inadequate. However, unlike in the aftermath of Cyclone Bhola in 1970, this natural disaster does not set off an explosive dynamic along political faultlines.

2. Political changes are unlikely. The disaster has further cemented the army’s popularity, allowing it to claim credit for the government’s successes (for it is a part of the government) but avoid the blame for the failures (which accrue to the civilian political leadership). Given the immense challenge of rehabilitation and reconstruction that lies ahead, General Ashfaq Kayani would have to be a conceited fool—which so far at least, he has shown no signs of being—to want to countenance a change in the political set-up. A weak, powerless and unpopular President Asif Zardari is just what he needs. Nawaz Sharif’s hopes to become the prime minister are unlikely to

NITIN PAI

Nitin Pai is editor of *Pragati* and blogs at The *Acorn* (acorn.nationalinterest.in)

fructify before the next election because he is popular, has political weight and could challenge General Kayani's hold on power.

3. Pakistan will not only receive debt waivers but also see a relaxation of conditions relating to financial assistance. While this will come as a relief for the government and the elite, it will weaken the endogenous factors that will aid recovery by delaying the implementation of important macro-economic reforms. It will also ensure the perpetuation of the current political setup because debt waivers and unconditional assistance will come much easier if there's a facade of a democratic government. Furthermore, given that a significant part of the international assistance will be routed through international agencies and NGOs, it will not strengthen the Pakistani government's civilian capacity.

4. Jihadi militant organisations will become more powerful but will not be allowed to increase their political profiles. This disaster, like the 2005 earthquake, is being used by organisations like the Lashkar-e-Taiba to bolster their credentials as providers of social services. However, to the extent that the Pakistani government will be dependent on international assistance—and it will become more so in the immediate future—the military establishment will not allow such organisations to make a direct play for power. Let's not forget that the LeT is a surrogate of the Pakistani military establishment, which, if it wants to, can directly seize power in a coup.

5. The military establishment will use the disaster as an alibi for downgrading its war against the Tehreek-e-Taliban-Pakistan in North Waziristan and elsewhere. Engaging in disaster relief will draw on military resources from the battle against the Taliban, but there are deeper reasons for the army's unwillingness to sustain battle against them. How quickly and to what extent it will resume the fight depends almost entirely on how much the United States can coerce the army.

6. Pakistan's support for the Taliban insurgency in Afghanistan will not be interrupted. The US will find it difficult in the coming

months to press the Pakistan army to cooperate in counter-insurgency operations because of the alibi. The direction of the war in Afghanistan will therefore depend on the Obama administration's political will and determination.

7. Pakistan's domestic stability is set to worsen. In the short-term, resettlement of internally displaced persons will complicate the ethnic and sectarian tensions in cities like Karachi, Hyderabad and Quetta. While this is likely to result in greater violence, it is unlikely to lead to collapse of the state. Instability will place an economic cost on Pakistan, damaging endogenous factors that can aid recovery.

8. The insurgency in Balochistan is likely to be contained. To the extent that the army is willing to use brute force and targeted killings to keep the lid on the conflict, and to the extent that the Baloch lack outright political support internationally, the prospects of secession are dim.

9. While radioactivity-leakage risks are low there is some risk to the security of nuclear plants, equipment and material. Such facilities are likely to have been built to withstand such contingencies. However, in the confusion that accompanies such events, there is a higher chance that physical security of nuclear installations can be breached. So far, there are no media reports flood waters affecting nuclear installations.

10. Disaster relief, reconstruction and rehabilitation will be decently funded. Despite the slow start in fundraising, despite concerns over aid distribution, the international community is unlikely to ignore humanitarian needs during the relief phase. However, it is unclear if the Pakistani government has the inclination and capacity to use the funds and goodwill to sustain its efforts beyond the short-term relief phase into the medium-term rehabilitation & reconstruction phase.

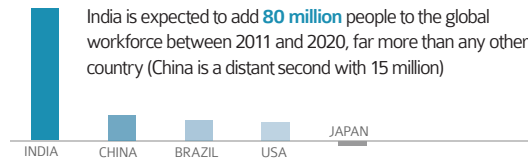
11. The US will make only small gains in popularity despite playing a leading role in relief and reconstruction. China and Saudi Arabia are likely to make disproportionately large gains. (In the short-term though, the situation is likely to be the opposite, because the narrative will be factual.) ■

Demographic Dividend

The rise of India's productive population

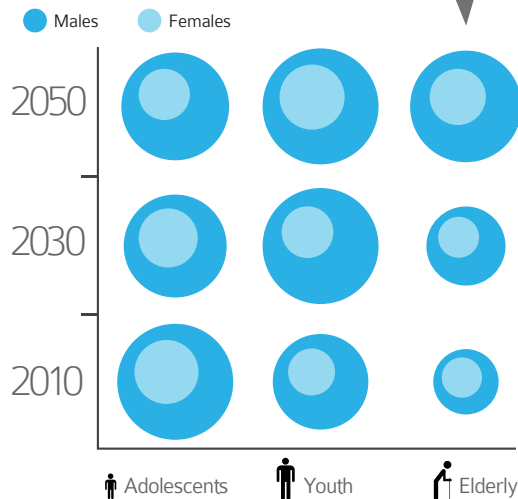
infographic

DIBYO HALDAR & ADITYA DIPANKAR

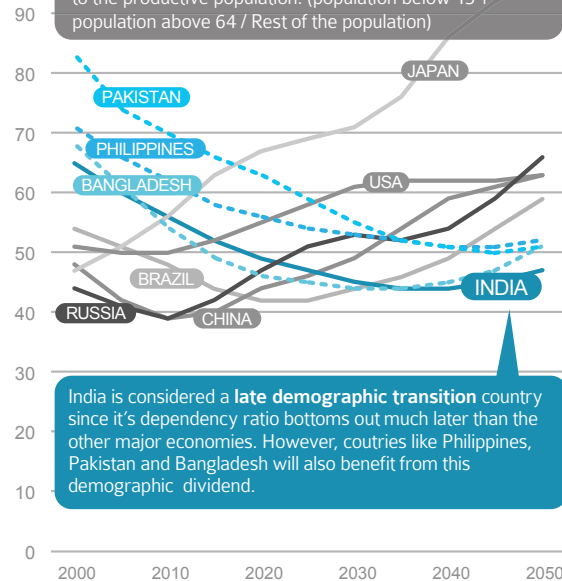


These population pyramids plot the estimated population in India for each age group at 20-yr intervals.

India moves from a youth-heavy population to much older population by 2050, as per present trends.



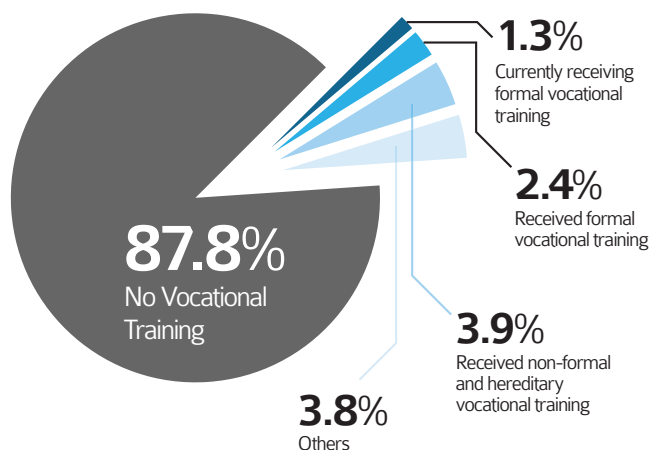
Dependency Ratio is the ratio of the non-productive to the productive population. (population below 15 + population above 64 / Rest of the population)



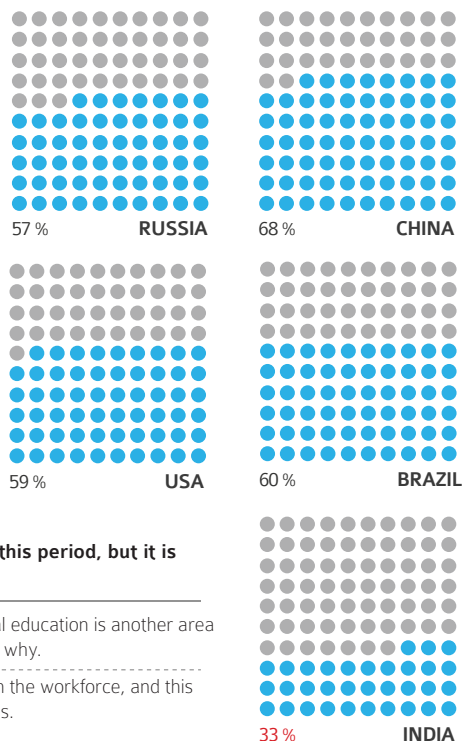
India is considered a **late demographic transition** country since its dependency ratio bottoms out much later than the other major economies. However, countries like Philippines, Pakistan and Bangladesh will also benefit from this demographic dividend.

Opportunity v/s Challenge

National Sample Survey **among 15-20 yr olds**



Female Workforce Participation '08



Analysts differ on the sectors where most jobs can/will be created during this period, but it is widely agreed that the following issues need to be addressed.

Education

While primary and secondary education is a challenge, vocational education is another area of concern. These data, from the Eleventh Five Year Plan, shows why.

Female Workforce Participation

India lags most major economies in the participation of females in the workforce, and this needs to change to take advantage of the demographic conditions.

Securing the demographic dividend

Labour reforms demand a greater urgency



Photo: Oxfam

HARSH GUPTA

Two recent reports—by TeamLease and Goldman Sachs—have called on Indian policy-makers to concentrate on reforming labour laws and education policy lest India fail to capitalise on its demographic changes. By 2025, about a quarter of the entire global workforce would be Indian—predominantly young, but potentially unskilled or unemployed.

TeamLease, a staffing company and Indian Institute of Job-oriented Training, released their annual report about India's labour market in June. Andhra Pradesh tops the 2009 "labour ecosystem" ranking based on labour supply and demand conditions as well as the labour law situation in the state. Other consistently well-performing large states are Karnataka, Maharashtra and Gujarat. Poorly performing states have been Uttar Pradesh, West Bengal and Bihar, although the latter has shown some improvements of late.

The Labour Ecosystem Index is found to be strongly correlated with future growth in the state's economy. While the report does not explicitly say

Harsh Gupta is a resident commentator on *The Indian National Interest* and blogs at *Swaraj* (swaraj.nationalinterest.in)

this, such a correlation does not bode well for any rapid convergence of the economies of poorer northern and eastern states having relatively fast increasing populations with that of richer southern and western states. This is especially so because geographic and sectoral mismatches of labour demand and supply might become worse before improving. The third inefficiency identified by the report is a skills mismatch for which more vocation and private education would be required to keep up with the market demands.

While government employment exchanges are supposed to ameliorate these mismatches, they have failed miserably. In 1992, 5.3 million people registered with them and 4.5 percent got placements. In 2005, slightly more than 5.4 million people registered but only 3.2 percent were successful. Disaggregating by states, only Gujarat's exchanges did their job by placing a respectable 48.1 percent of the applicants in 2005, with the second highest rate being Rajasthan's 4.5 percent, according to the labour

Making labour completely a state subject might be a good route to reform.

ministry. In fact, the Delhi government budget shows that it costs the government ₹228,381 for a single placement! Although the trend towards privatised exchanges has finally started—TeamLease itself being awarded a public-private partnership contract to run one Karnataka employment exchange—clearly a lot more needs to be done.

The only way then to not miss the economic dividends of our demographic transition towards a younger workforce is to invest more (and more smartly) in education, along with rationalising labour laws. Realising the political difficulty of labour reform, the TeamLease report recommends federalism—making labour completely a state subject—to allow competition and innovation in this policy area. Indeed, Manish Sabharwal, Bibek Debroy and Laveesh Bhandari—the minds behind this report—have long been calling for labour and education policy reform through public-private exchanges, outright privatisation where appropriate, and decentralisation.

Although allowing states to completely set their own labour regulations is a good first step, reform will still be difficult because of the classic insider vs outsider struggle. Unionised employees, especially government employees, do

not want to cede an inch towards making firing easier. But that naturally discourages the organised sector from hiring “outsiders”—that is why jobs with basic benefits continue to be so few despite the economy's explosive growth. Moreover, minimum wages which have been repeatedly hiked in many states constitute another obstacle to hire a person “on the books” and provide healthcare and other benefits. In the United States, for instance, David Neumark and William Wascher have found that it is “fairly unambiguous” that “minimum wages reduce employment of low-skilled workers” and that there is “no compelling evidence that minimum wages on net help poor or low-income families”.

Goldman Sachs, in a broader economic report, says that falling dependency ratios and the rise of the “thorties” (30-49 year olds) could start off a virtuous cycle of saving, investing and further growth. Moreover “prospective lowering of effective tax rates” along with liberalising labour laws could further increase India's attractiveness a major destination for manufacturing investment as well, especially as China's labour costs rise as it transitions into higher value-add activities.

In the next decade, China's labour force will increase by 15 million, Japan's will decline by 3 million while India's will increase by a staggering 110 million! In fact just demographics might account for 4 percentage points of economic growth every year, or around half the total growth possible. However, these high rates assume that India's policies will no longer remain biased against the urban, organised sector and that education—especially of the female population—will not be short-changed.

While both the Goldman Sachs and TeamLease reports largely make the same prescriptions, the former focuses more on generous childcare policies and other incentives for women to work, whereas the latter recommends a general path of liberalisation, with the specifics left to evolve in the policy laboratories of states.

The idea of population being an asset is now entrenched. Domestic trends like an explosion of aspirations and a move towards further gender equality would further increase our effective workforce. The Union government must help with regard to education and labour laws—mostly by interfering less and facilitating more.

As a final remark, creating a national market—not just in goods and services, but in labour also—requires more than just smart policy. It requires Indians of all regions and states to be less chauvinistic and more accepting of diversity. Without this attitudinal change, the internal migration to more prosperous states over the next decade will either be impaired or create social problems. We in India might start greying before we start getting rich. ■

Cricketpolitik

The politics of governing the game



Photo: Graham Dean

VENKAT ANANTH

The International Cricket Council's (ICC) executive conference in Singapore in June only confirmed what the cricketing world feared, if not had severe apprehensions about—of India's muscle power in running world cricket and of the realignment of forces in the forum. Former Australian Prime Minister John Howard's nomination for vice-presidency of the ICC was blocked by what later was dubbed as the "Afro-Asian" bloc, for reasons that went beyond cricket. These reasons ranged from Mr Howard's past positions on international issues to the diplomatic "lack of cricket administration experience."

Mr Howard does have a controversial past, a leadership style centred around unilateralist principles and may lack an ability to create consensus. His arrogance in standing by what he says and his unwillingness to apologise for his outspoken demeanour eventually ticked off many, causing many nations to vote against his nomination. Mr Howard's nomination as a joint candidate of Cricket Australia and New Zealand Cricket is itself worth exploring. Sir John Anderson, a well-known New Zealand-based businessman and an experienced cricket administrator was in the running, but an arbitration panel or the "emergency committee", headed by an Australian eventually picked Mr Howard as the consensus candidate.

Venkat Ananth is a cricket columnist whose interest include foreign affairs and football. He blogs at Vadapav Gleanings (vadapavgleanings.wordpress.com/)

Mr Howard's positions on leading international issues, and his proximity to George W Bush played a major role, losing him two strong votes from Bangladesh and Pakistan, cricket's only two Muslim Test-playing nations. His infamous 1988 speech against Asian immigration and his views on Muslims as an inferior community in Australia must have eventually contributed to his bid's failure. His faux pas in a press conference calling Sri Lanka's Muttiah Muralitharan a "chucker" in 2004, and subsequently, the failure to condemn the regular racial abuse directed against Sri Lankan cricketers, meant one more vote lost to Mr Howard. The fact that Mr Howard did not ban the LTTE during his three terms didn't help.

Then we have the case of Zimbabwe and South Africa. The former was lost because of Mr Howard's strong political views against Robert Mugabe and the latter because of his condoning apartheid by opposing economic sanctions against P W Botha's administration. In 2007, Mr Howard likened the Mugabe-led Zimbabwean administration to "Nazis" and banned the Australian team from touring the country, opting to pay over \$2m to the ICC for the cancellation of the tour. He called Nelson Mandela a "terrorist" even after he was democratically elected in South Africa's first post-apartheid elections. A week before the meeting in Singapore, Mr Howard made a desperate dash to Harare to meet David Colbert, Zimbabwe's sports minister, making promises in exchange for the vote of confidence. This eventually proved to be in vain.

Mr Howard thus carried baggage, which cricket and the ICC could easily live without. Cricket Australia should have thought better while picking its candidate for the ICC vice-presidency.

However, mammoth in the meeting was India, represented by Shashank Manohar, chief of the Board of Control for Cricket in India (BCCI). BCCI voted against Howard's nomination, though there were no reasons given for the same. At one level, this vote was puzzling: the BCCI and Cricket Australia have moved closer than ever, with the Australians endorsing BCCI's commerce-led policies, namely the Indian Premier League (IPL) and Champions League Twenty-20 tournaments. The boards are working very closely to set up regular exposure-based exchange programmes for cricketers of both nations.

It is possible the India-Australia relations were at play at some level—but unlike the Pakistani and the Bangladeshi case, where a decision on support to Howard was left to their governments—there was no intervention from the Indian government. From race attacks against Indian students in Australia to the consistent snub over the refusal

of uranium sales to India to the decade-long dalliance with China, Australia's relations with India have been at best inconsistent and moody. It was during Mr Howard's prime-ministership that Mohammad Hanif, an Indian doctor in Australia was held for alleged links to terrorism. All put together, the snub wasn't quite unexpected—given BCCI's interests in maintaining close cricket relations with Asian nations like Bangladesh, Pakistan and Sri Lanka and its clearly felt the need to stamp its own clout on the game by dictating terms on most contentious issues.

But did India act in the best interests of the game? Or were internal dynamics emanating from the Lalit Modi's IPL imbroglio at play, where a vote against Mr Howard was pretty much a vote against Sharad Pawar who had openly backed Mr Howard's nomination a month before becoming ICC president?

Mr Howard's case was largely based on *tu quoque* grounds, the claim being that if Sharad Pawar, one of India's non-performing cabinet ministers could bag the top job, so could a former Australian prime minister who

John Howard's nomination for vice-presidency of the ICC was blocked for reasons that went beyond cricket.

many Australians dislike for his lack of credibility. Or that, the people governing cricket in respective member-nations are themselves proxies of the people in power—like Pakistan, Bangladesh, Sri Lanka and Zimbabwe and hence cricket could do with a John Howard. Or maybe, as some of Mr Howard's supporters claim, he would have been the ideal man to keep India's clout in check, even if his supporters at Cricket Australia choose to bend their knees in submission to the BCCI.

What the game needs today is not a run-of-the-mill administrator but a leader whose credibility and integrity are unimpeachable and who has a vision for world cricket at a time when the game is facing an acute identity crisis. The ICC must not be seen as a secondary forum for active and retired politicians to search for an alternative source of power, but as a body which genuinely has the game's interests at heart. For now sadly, cricket is on the back foot, under attack from cliques who put their own interests before the game's. ■

Recession and green consciousness

MATTHEW KAHN and MATTHEW KOTCHEN have found ("Environmental concern and the business cycle: the chilling effect of recession", NBER Working Paper 16241) that as recession deepens and unemployment rises; people become less worried over global warming and environment concerns. The worries instead shift to unemployment and job issues.

The authors say that effective environmental policy in general and climate-change policy in particular is more likely to succeed during economic booms. One of the main lessons of this crisis is that government should adopt countercyclical policies that create surpluses in boom times which could then be spent in recessions like this one. But this paper shows it is also important that tougher issues like environment are tackled in good times.

Cause, effect and lag

MICHAEL DEBABRATA PATRA and MUNEEESH KAPUR have a new paper to help understand monetary policy in India ("A Monetary Policy Model Without Money for India", IMF Working Paper No. WP/10/83, August 2010).

Whenever RBI changes interest rates, the question that is asked is how much time will it take to impact the economy? The paper says monetary policy actions impact economy with a lag of at least three quarters, with inflation taking seven quarters to respond. RBI started increasing rates from March 2010 onwards. Hence, we should be seeing some impact on economy/demand from June 2010 onwards and on inflation from October 2010 onwards. The recent data releases do point to some moderation but it is difficult to say it is because of monetary transmission alone. For instance both IIP growth for June 2010 and WPI inflation for July 2010 have been lower than market expectations. Banks have also started to raise their interest rates. So, we do see some impact taking place but we can't say it is because of monetary transmission alone. The paper also says inflation is inertial and persistent when it sets in, irrespective of

the source. Exchange rate pass-through to domestic inflation is low. Inflation turns out to be the dominant focus of monetary policy, accompanied by a strong commitment to the stabilization of output. Recent policy actions have raised the effective policy rate, but the estimated neutral policy rate suggests some further tightening to normalize the policy stance.

Fiscal responsibility (and lack thereof)

WILLEM H BUITER and URJIT R PATEL analyse the outcomes of the FRBM Act over the 5-year period of its operation 2004-05 to 2008-09 ("Fiscal Rules in India: Are They Effective", NBER Working Paper 15934). The paper says that the central government has missed both the fiscal and revenue deficit targets by some margin. Its fiscal deficit for the terminal year, 2008-09 was 6% of GDP way above the targeted 3% of GDP. And if we include the off-budgeted items the deficit is around 8% of GDP. Seeing the numbers, authors say that "not only has there been no fiscal correction once off-budget items are included, but indicators mostly deteriorated." The targets were missed even before the onset of the Global Recession in 2008. The adverse evolution in the center's fiscal balances was not on account of the operation of automatic stabilizers during a cyclical slowdown. On the contrary, the Indian government's revenues have been buoyant. The gross tax-GDP ratio increased from 9.7% in 2004-05 to 12.6% in 2007-08 on the back of an almost 9% average annual growth rate. The recent profligacy of the central government has its primary driver in populist spending policies by the ruling coalition leading up to national elections in May 2009. Three stimulus packages, including a reduction in indirect taxes, starting in late 2008 to counter global recessionary headwinds only helped matters along in the same direction.

The authors also review fiscal responsibility legislation at the state level. The research shows that in recent years the states have improved their finances but this space has been usurped by the central government. So, overall deficit levels have only worsened. The authors outline a basic incentive compatible framework for state and central

governments to hold each other accountable over agreed pre-determined targets.

Gold and paper

One major lesson from this crisis has been the importance of economic history. One keeps getting excellent papers which gives one lessons from history. It also shows how economic situations do not change much, players might change.

In one such paper, BARRY EICHENGREEN and PETER TEMIN ("Fetters of Gold and Paper", NBER Working Paper 16202) compare the Euro with the Gold standard. The authors show why the gold standard and the euro are extreme forms of fixed exchange rates, and how these policies had their most potent effects in the worst peaceful economic periods in modern times. As in the Great Depression, this second round of problems stems from the prevalence of fixed exchange rates. Fixed exchange rates facilitate business and communication in good times but intensify problems when times are bad.

In previous research papers as well, the authors have argued how adherence to gold standard turned the crisis into a severe global depression. As central banks mantra was to defend gold standard then they could not inflate the economy by lowering interest rates. And then same is the case with Euro. The paper also touches on the problems of international monetary system. Even then Keynes had visualized the problem as surplus countries continued to make merry and only deficit countries suffered. In gold standard time US was the surplus country and now it is China. Deficit countries like Germany suffered then just like we have the United States and Britain suffering now. In a global system, the surplus countries also need to understand the issues as only then problems will get corrected.

In Parliament

Deserving a raise

briefs

The cabinet has decided to introduce a Bill to revise the salary and allowances of members of parliament (MPs). Reports indicate that the salary of MPs is being raised to ₹50,000 per month, and several allowances and office expense limits are being doubled.

The salary and allowances of MPs are stated by law enacted by MPs themselves. This creates a direct conflict of interest and a subsequent public uproar every time they increase the salary. Consequently, MP salaries are far lower than that for any comparable level of responsibility. Indeed, the base pay of an MP is approximately the same as that of a government employee with two decades of service at the lowest band. Therefore, it is important to develop a mechanism to determine the salaries and perquisites of MPs.

How we pay our MPs today

The base salary of an MP is ₹16,000 per month. In addition, the MP gets a daily allowance of ₹1,000 for every day of attendance in parliament. (Given that Parliament sits for about 70 days, this works to about ₹6,000 per month for an MP with 100% attendance). Other benefits include medical cover and pension of ₹8,000 per month (increased by ₹800 per month for every year of being an MP). They get a flat or hostel accommodation in Delhi; for a bungalow, they pay a license amount.

Some of the official expenses incurred by MPs are also reimbursed. This includes ₹20,000 per month as constituency allowance, ₹10,000 for one computer literate assistant in Delhi, ₹4,000 for an assistant in the constituency. They are reimbursed for 34 single journey air tickets per year for travel within India for themselves and family. They are allowed two fixed line and one mobile

M R MADHAVAN

M R Madhavan heads research at PRS
Legislative Research (prsindia.org)

phone, with a total of 1.5 lakh local call equivalent (including STD, fax and mobile calls) per annum; in addition ₹1500 per month for a broadband internet connection. They get stationery for ₹4000 per month and franking of ₹2000 per month.

It can be seen that the base salary of an MP is around 5 percent of the salary of national legislators in many democracies (Table 1). Even adjusted for the purchasing parity (taking the purchasing parity of one US dollar at equivalent to ₹10), the salary of Indian MPs is only about 25 percent that of their counterparts.

It is also interesting to see that Indian MPs are paid much lower than that for other holders of public office and senior civil servants (Table 2). Indeed, the salary is comparable to that of a Band-D (lowest level) employee of the government of India. Thus MPs get a fifth of the salary of a Secretary to the Government of India, even though they outrank them in the order of precedence.

Table 1. Comparative Base Salaries of National Level Legislators

Countries	Annual Salary	Equivalent in Rupees
India	INR 192000	192,000
Australia	AUD 131040	5,468,299
New Zealand	NZD 131000	4,309,900
Canada	CAD 157731	7,082,122
USA	USD 174000	8,143,200
UK	GBP 64766	4,727,918
France	EUR 65328	3,919,680
Germany	EUR 92016	5,520,960
Sweden	SEK 654000	4,133,280

Note: This does not include other allowances, such as daily allowance, housing, medical care, pension etc.

Table 2. Comparative Base Salaries of Senior Public Officials and Civil Servants

Position	Monthly pay in Rupees
Member of Parliament	16,000
President of India	150,000
Vice President of India	125,000
Governor of state	110,000
Chief Justice of India	90,000
Cabinet Secretary	90,000
High Court Judge	80,000
Secretary, GOI	80,000
DG Police	80,000
SEBI Chairman	200,000

Note: This does not include other allowances, such as housing, car, medical care, pension etc.

The base pay of an MP is approximately the same as that of a government employee with two decades of service at the lowest band.

Issues of concern

First, the current base pay is very low. This deters many professionals from entering public service as legislators. The low salary may also compromise the ability of MPs to work in an effective and independent manner.

Second, MPs set their own salaries. This results in a conflict of interest. This also causes adverse comments from the media and the public whenever salaries are raised. Consequently, salaries have not kept pace with the general wage rise and price levels.

Third, official expenses of MPs are currently called “allowances” and therefore viewed as perquisites. These expenses include office space, research and other support staff, travel and communication expenses. These expenses should not be seen as the MPs’ remuneration package. They are simply the cost associated with the office. As an analogy, the office space and official support staff of senior government officers or private sector executives are not viewed as part of their pay package.

Pay principles

These three issues could be resolved if the following three main principles are followed.

First, the salary of MPs should be reasonable and sufficient for them to attract professionals and enable them to work as MPs in an independent manner.

Second, the salary of MPs should not be set by MPs themselves.

Third, official expenses of MPs including office space and staff should be set separately and not be seen as a part of their pay package.

How others do it

Indeed, some democracies have developed mechanisms such as an independent authority to determine and revise the salary of legislators. This is similar to the Pay Commission for central government employees.

Table 3. Methods for setting salaries in different democracies

Countries	Process of determining salary of legislators
Australia	Remuneration Tribunal decides the salary. This is revised annually. Salary linked to Reference Salary A in the Principal Executive Office structure
New Zealand	Remuneration Authority based on (a) fair relativity to levels of remuneration elsewhere. (b) be fair to person being remunerated and the taxpayer, (c) recruit and retain competent persons
Canada	Commission to review MPs' pay within 2 months of each general election. Pay pegged to federal government's annual wage rate index
UK	The Senior Salaries Review Board recommends pay revisions every three years, which are then voted upon by Parliament
France	MP pay linked to that of civil servants by equating it to the arithmetic average of the highest and lowest paid civil servant at the highest grade.
Germany	Decided by parliament (Bundestag) taking into account the responsibility and burdens associated with the office

Such a structure helps resolve the conflict of interest, compensation package appropriate for the responsibilities and enables an independent body to recommend a of legislators. ■

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Politics, the film

Rajneeti and the acceptance of grey



Photo: Al Jazeera

GUL PANAG

Gul Panag is an actress and the chief driving force of the Col Shamsheer Singh Foundation

I walked into the office of Prakash Jha Productions over a year ago, for a workshop for my film *Turning 30* (directed by Alankrita, the associate director of *Rajneeti*). It was my first meeting with the team that had been working on the pre-production of *Rajneeti*. They were two months away from the start of filming, yet the air was that of a war room. Perhaps it was the sheer magnitude of the film they said they were preparing that made it overwhelming: 100 days of shooting, 10,000 extras, 12 principal characters. All to be shot on location in Bhopal. I was already intrigued.

Other than the scale, the thing that struck me about *Rajneeti* was the rather unusual casting. Mr Jha had succeeded in mounting a very unconventional story on some hitherto untried shoulders. Would the film work? In 'Jha-land'—Uttar Pradesh and Bihar—, of course. Everything he makes runs there: it could be the sun of the soil factor, or perhaps the fact that the stories were always set in the hinterland.

But given the cost of *Rajneeti*, it would need a lot more viewers across the country, the metros specially, to loosen their purse strings if it were to recover its ₹700 million investment. And therein lay the risk.

In the event, the film made an astonishing amount of money across the board. This surprised everyone, including Mr Jha himself. This was the first question I asked him when I met him at a film festival in Dublin, after the release. (He is the producer of my next film and rather indulgent towards me.) He smiled and said, “Well I didn’t expect it to be this huge.” This, despite the fact that *Rajneeti* drew criticism from some quarters for its overt and supposedly unrealistic portrayal of violence. So why did it work?

Though no one ever really knows why a film works, there was definitely a lot going for *Rajneeti* to begin with. Mr Jha has a reputation for making hard-hitting realistic films. He has an obvious command over his craft. These factors make him a draw for the thinking audience as well as the masses. The star cast helped. The most intriguing element of the casting was probably the choice of Katrina Kaif and Arjun Rampal, two actors who had never been associated with alternative cinema. A lot of people went into the theatre to see Ms Kaif in an avatar that closely resembled Sonia Gandhi. Her transition from a glamorous diva into a cotton sari-sporting politician definitely had shades of Sonia Gandhi’s story. Credit should also go to the riveting screenplay, and to the ingenious marketing strategy adopted by producers—in fact, the Kaif-as-Sonia Gandhi image was as much a marketing creation as it was a result of the story and acting. Above all, that it was inspired by the *Mahabharata*, was another contributor to *Rajneeti*’s success. There were shades of *The Godfather* too, and that went down well with the viewers exposed to Hollywood. As a well packaged product, the film deserves its success.

The success of *Rajneeti* tells us something about

how we perceive the rich and the powerful, and those in politics. Many viewers went home satisfied because the film was close to what they imagined feudal or political set ups to be. That the Indian people don’t hold their politicians in high regard adds to the believability of the film. They expect their leaders indulge in the same kinds of manipulation as the characters did in the film. The dynastic aspect of Indian society, where doctors’ children become doctors, lawyers children become lawyers and politicians wards become politicians, was well documented in the film. To see come alive on

That the Indian people don’t hold their politicians in high regard adds to the believability of the film.

celluloid, the Machiavellian world of intrigue and deceit that the average man perceives politics to be, must indeed be gratifying in a twisted sort of way. It’s like one grand “I told you so”.

Another interesting observation from the success of this film is the acceptance of grey characters as protagonists. This is a paradigm shift. In the past we’ve always had a very clear distinction, in our films between good and evil. Almost all the characters in *Rajneeti* have shades of grey. This feels more real. Indian film audiences today are exposed to the best global cinema. Today, if a film has to hook the audience, it needs to respect the intelligence of the viewer. *Rajneeti* does that. It doesn’t spoon-feed. It expects you to draw your own conclusions, and it doesn’t preach. ■



book review

Finding the balance between government and market

A review of Raghuram Rajan's *Fault Lines*



Photo: Woodley Wonderworks

VIRAL ACHARYA

Viral Acharya is professor of finance at New York University's Stern School of Business and co-editor of *Restoring Financial Stability* (Wiley, 2009) and *Regulating Wall Street* (Wiley, forthcoming). A version of this article appeared on Ajay Shah's blog (ajayshahblog.blogspot.com)

Raghuram Rajan's book *Fault Lines* (Princeton University Press for the international edition, and Harper Collins for an Indian edition with a special chapter on India) is possibly the most thought-provoking contribution in the aftermath of the economic and financial crisis that has engulfed the West after 2007 with significant global repercussions.

The epilogue of the book summarises its punch line: *The crisis has resulted from a confusion about the appropriate roles of the government and the market. We need to find the right balance again, and I am hopeful we will.*

The key idea of *Fault Lines* is to focus on slow-moving tectonic plates in the global economy: consumption by borrowing in countries with fiscal

deficits, excess savings in exporting countries that are fiscally in surplus, and growing sophistication of the financial sector. None of these movements might seem dangerous in itself, but when these plates come together and collide, the global economy can get badly shaken. To most players focused narrowly on their own positions, leave alone the movements of the plate they stand on, the earthquake—like this crisis—may seem an unfortunate happenstance. In the analytical framework of *Fault Lines*, the crisis was not a pure accident and that more severe crises could arise in future unless the root causes are addressed sufficiently soon.

The book presents two important government distortions in the global economy and their underlying causes. These are, first, the push for universal home ownership in the United States, and second, export-led growth in countries such as Germany and China. Together, these policies have led to massive “global imbalances”, with some countries such as the United States, the United Kingdom and Spain persistently being in deficit, and borrowing from the surplus, exporting nations. While pursuit for home ownership affordability and growth do not necessarily have to be distortionary, the book makes the sharp observation that these have been occurring at the expense of something more important but subtle.

In the United States, there has been growing income inequality, which combined with a relatively feeble safety net for the poor and unemployed, has created pressure on politicians to find quick ways to bridge the inequality. Instead of improving the long-run competitiveness of labour force for a global market with a changing mix of industries and required skills, governments have adopted the short-run option “*let them eat credit*” (the title of the first chapter). The presence of government-sponsored financial firms in the United States (Fannie Mae and Freddie Mac, in particular) enabled exercising such an option readily through a push for priority lending to the low-income households (sub-prime mortgages).

In case of surplus countries, it has been the problem of *exporting to grow* (the title of the second chapter). Their single-minded focus on exports has led governments to ignore the domestic sector, preventing sufficient redeployment of surplus for internal development, and somewhat perversely, even boosted domestic savings rates

significantly due to lack of adequate safety nets (at least in case of China, if not in case of Germany). As someone mentioned in a recent dinner conversation: Each child in China is saving to fund post-retirement expenses not just of two parents but also of four grandparents. These savings have thus had no place to go but outside, giving rise to massive capital inflows that fuelled the housing sector expansion in the United States, Britain and Spain.

What is fascinating is that *Fault Lines* explains how these lop-sided government policies of two separate sets of countries have interacted with each other—and with

the financial sector—in fuelling the expansion to levels of unsustainable housing bubbles. The idea here is that the invisible hand operating through the price when the price is distorted can also lead to massive distortions in the allocation of capital. The financial sector in developed world is so sophisticated and amoral (a great choice of word by the author) that its dispassionate pursuit of profits leads it to direct capital to wherever there is a relative mis-pricing.

So if governments are subsidising home ownership, efforts will be made to deploy all free capital of the world to the housing sector. If some governments are finding it cheap to borrow because savings are seeking them out, the financial sector will grow at a sufficient rate to absorb and support expansion of housing credit through these capital inflows.

Clearly there have been incentive-based distortions in the financial sector, especially due the short-term nature of accounting-based compensation that ignores true long-term risks. The book explains, however, that the bigger issue was something else: that the imbalance of capital flows and the ease of pushing sub-prime home ownership—both due to government distortions—meant the financial sector was essentially a conduit to making happen what the rest of the world was seeking to achieve. In the process, banks made a ton of bad loans (but the governments were happy with that till it all really blew up). And some parts of the financial sector pursued this role even more aggressively than one could have imagined due to the steady entrenchment of too-big-to-fail expectations—large banks being repeatedly bailed out through government forbearance and enjoying central-bank monetary stimulus each time markets turned south.

**Fault Lines: How Hidden Fractures
Still Threaten the World Economy**
by Raghuram G. Rajan
Princeton University Press,
2010, 272 pages

Some may question the basis of this argument by saying—why did we see credit expansion across board and not just in low-income households? Here, *Fault Lines* focuses on a rather fascinating phenomenon that recoveries from recent recessions, especially in the United States, have remained “jobless” for extended periods of time. Perhaps as a subconscious response to this (or due to ideologies in other cases), central banks have tended to provide massive monetary stimulus to get the financial sector to push the household consumption and real sector

Raghuram Rajan provides an explanation of what brought about the perfect storm we have recently weathered.

investment harder and harder through greater lending and intermediation. Such stimulus, unfortunately, again serves to transfer rents from households to the financial sector (by keeping interest rates low) and produces mispriced risk. Thus, the economy moved “*from bubble to bubble*” (the title of the fifth chapter), until the most recent bubble could not be mopped up by anyone, not even the most innovative central bank of all, despite its own best efforts.

In essence, *Fault Lines* connects the dots visible to all of us in a rather ingenious manner to provide an explanation of what brought about the perfect storm we have recently weathered.

While the book is worth it even just for its explanation of why we had a crisis now rather than at some other points of time, it goes the extra mile and proposes valuable reforms, focusing on all three issues: building a better safety net in the United States (see in particular, the suggestions to improve education access

to all and extend a greater level of unemployment insurance), reducing the global imbalances, and improving the regulation of the financial sector so that it (and its financiers) pay for mopping up of bubbles it fuelled, rather than governments and central banks passing on these costs to taxpayers.

The book also helps understand why export-based Chinese and German growth, and their effective vendor-financing of consumption in the United States and Euro-zone countries, may ultimately face limits as consumption slows. These countries are now being forced to become the stimulators of growth and run the risk of planting seeds of bubbles in their own economies. This is how hidden fractures still threaten the world economy, as the book’s subtitle goes. It also leads one to reconsider that India’s slower growth rate than China, while not entirely faultless, might however be more balanced given its lack of extreme export reliance.

Raghuram Rajan’s writings are always cogent and based in sound set of facts. But this book is special in the sense that here he paints on a much larger canvas, covering bases from distributional issues within income strata of society, to the persistent capital imbalances across large countries of the world, and the ruthless profit-maximising incentives of modern market-based financial sector.

There is a lot going on in the book. But it is written with great examples and cases —almost lyrical at times (it even has a fascinating poem recounted in the chapter “*The Fable of the Bees Replayed*”), and should be accessible to one and all. It will certainly question some long-held biases about current state of economic conditions in Western countries. However, it is hard to not take a deep breath and ponder once you have read it all. In many ways, it shows that when economic conditions so demand or induce, the developed world behaves much the same way as the developing world: they are both after all driven by choices of human beings and the book lays out some common patterns of global economic behavior—in households, markets and governments. ■



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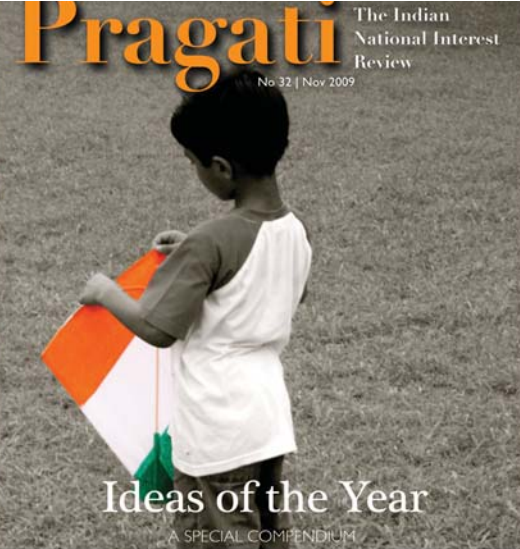
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Stepping up in Afghanistan

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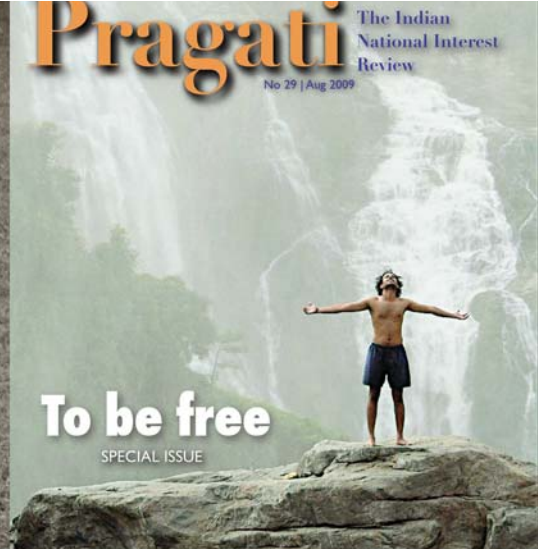


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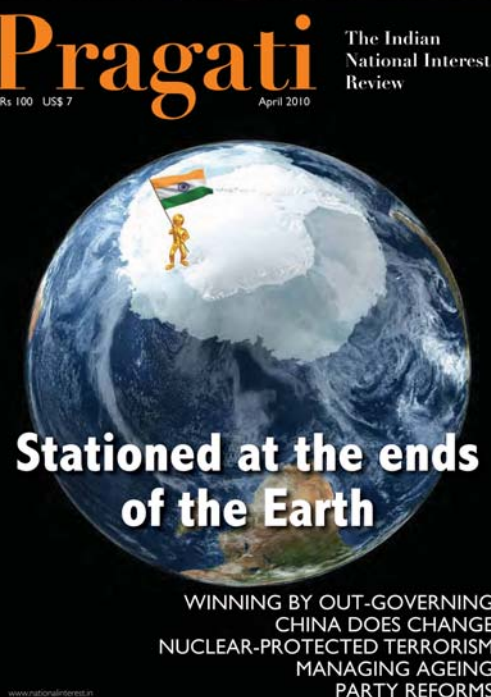


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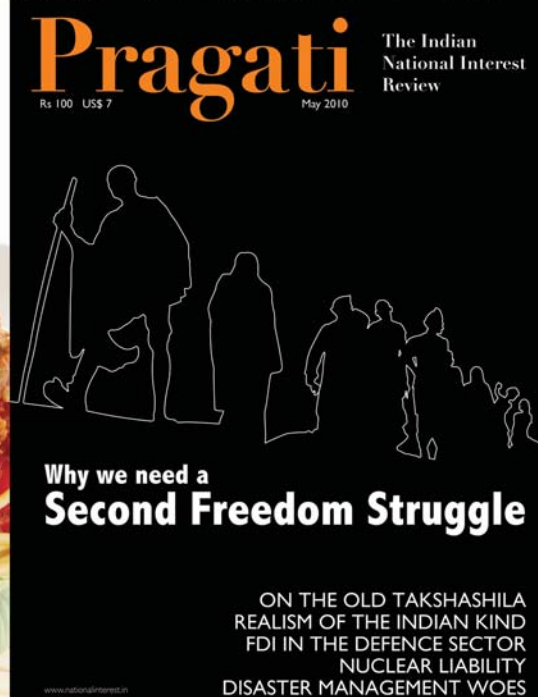
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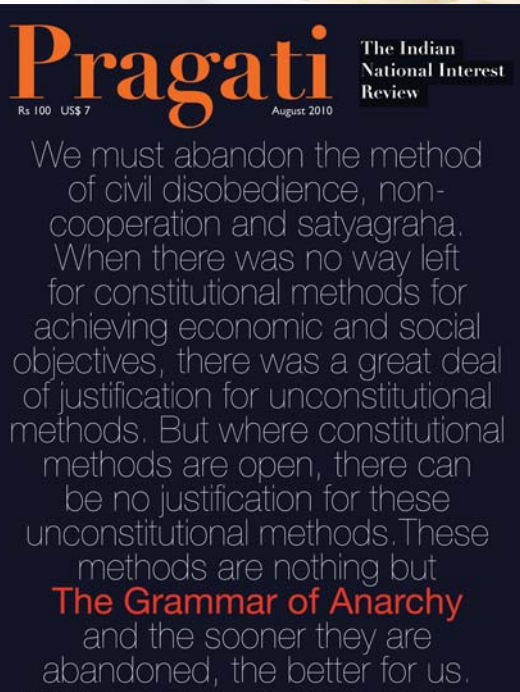
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The Indian National Interest Review

August 2010

We must abandon the method of civil disobedience, non-cooperation and satyagraha. When there was no way left for constitutional methods for achieving economic and social objectives, there was a great deal of justification for unconstitutional methods. But where constitutional methods are open, there can be no justification for these unconstitutional methods. These methods are nothing but **The Grammar of Anarchy** and the sooner they are abandoned, the better for us.



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The return of the Ottoman?

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